

SP Transmission – detailed comments on draft RIIO T1 Electricity Transmission Licence issued July 2012

Respondent details SP Transmission		[Jeremy Blackford, jeremy.blackford@scottishpower.com, tel. 0151 609 2346]			
No.	Condition number / RIIO tracking number	Condition name	Page/Paragraph Ref	Comments	Suggested alternative drafting (please use tracked changes wherever possible)
	GENERAL TERMINOLOGY			<p>Please review use of different terms for same thing across and within conditions, such as formula year, regulatory year, relevant year (e.g. ETC 25).</p> <p>Please note widespread inconsistencies in algebraic representation of items between licence, PCFM and what is available of draft handbook.</p>	Please review for consistency in terminology.
	GENERAL– PARAGRAPH NUMBERING			Please review convention for paragraph number ing - in some cases, e.g. ETC17, paragraph numbers fo not include number of condition.	
	<u>SPECIAL CONDITIONS: RELATED TO RESTRICTION OF ALLOWED REVENUE</u>				
	GENERAL – INDEXATION OF SOME COMPONENTS OF Tot			Some terms within the overall formula in ETC20 do not appear to have appropriate indexation applied (i.e. application of RPIft to values in 2009/10 prices). In particular, the NIAt term (ETC 11), SFIt term (ETC25), SSOt (ETC24), and (possibly) EDRt term (ETC17) are relevant here.	

	GENERAL – POTENTIAL FOR DOUBLE COUNTING OF MODEL AND LICENCE ADJUSTMENTS			<p>In some cases there appears to be scope for adjustments of the same variable to be applied both within the licence itself and via the model. The provision for Eligible NIA Internal Expenditure (NIAIEt within the NIAI formula in ETC11 is one example here. We are not clear that this category of expenditure will be excluded from the Totex mechanism within the model.</p> <p>We also think that the legacy adjustments licence condition (ETC64) should explicitly state that the adjustments concerned fall outside the scope of the totex mechanism. We would appreciate a discussion of this point.</p>	
	GENERAL - EXISTING LICENCE CONDITIONS RELATING TO ALLOWED REVENUE	EXISTING SPECIAL CONDITION J8, PROVISION OF INFORMATION TO THE SYSTEM OPERATOR	N/A	<p>Please review terminology for consistency and note cross reference to existing special condition J2.. Please also note that existing condition requires notification to SO of charges for year t by 1 November in year t-1, prior to the 30 November date for the MODT direction by the Authority.</p>	
	ETC9	Innovation Roll-Out Mechanism	Page 89, para 9.5 a	<p>There appear to be some words missing before "... the approval of changes".</p>	Should "takes account of" be included here?

	ETC17	EDR	Page 53, para. 6	This paragraph states “ For regulatory years 1 and 2 (which will begin on 1 April 2013 and 1 April 2014 respectively) EDR_t will equal zero.” Our current understanding is that there will be a reward available in 2013 requiring a revenue adjustment in 2014.	Consider change to “For the regulatory year commencing 1 April 2013 EDR_t will equal zero.”
		EDR	Page 53. Title “Environmental Discretionary Reward Scheme”	This reward scheme is much broader than a typical Environmental measure and consideration might be given to renaming ‘Low Carbon Discretionary Reward Scheme’ or ‘Sustainable Energy Discretionary Reward Scheme’.	
	ETC20	Restriction of Transmission Network Revenue	Page 29, para 20.2	Requirement to use best endeavours to ensure that revenue does not exceed TO_t potentially conflicts with outcome of network charging volatility consultation	Review 20.2 following decision on network charging volatility.
	ETC20	Revenue Restriction	Page 30, Para 20.4	Under definition of DIS, part (a) should specify [NGET only]	
	ETC20	Restriction of Transmission Network Revenue	Page 31, para 20.6	$RPIF_t$ is a factor and cannot take a negative value, otherwise BR_t would become negative	Delete “, whether of a positive or negative value,”
	ETC20	Restriction of Transmission Network Revenue	Page 31, para 20.7	$RPIF_t$ is defined “for the purposes of paragraph 20.6 of this condition” but $RPIF_t$ is also used in other conditions eg ETC21	Delete “For the purposes of paragraph 20.6 of this condition,”
	ETC20	Restriction of Transmission Network Revenue	Page 31, para 20.7-20.9	Please review drafting for TRU_t in relation to year 2014/15 as some components are not defined for year 2012/13 (i.e. $t-2$). In particular, there is no “BR” value for year 2012/13.	
	ETC20	Restriction of Transmission Network Revenue	Page 32, following para 20.7	It is not clear that the RPI forecasts growth rates should be those in the table of Medium Term Forecasts.	Add “in the table of medium term forecasts for CPI and RPI inflation” after “New forecasts (marked *)”

	ETC20	Restriction of Transmission Network Revenue	Page 32, para.20.9	'Vanilla Weighted Average Cost of Capital' appears to be undefined. Appropriate references to handbook and final proposals should apply.	
	ETC20	Restriction of Transmission Network Revenue	Page 34, Part E	As NICFt is indicated to be for NGET only, the term IIt becomes equal to NIAt for SPTL and this part is not necessary	Incorporate term NIAt directly into the Principal Formula and mark part E as "not used" for SPTL
	ETC2	Reliability incentive adjustment in respect of Energy not supplied	Page 41 Part A para 2	RILEGt term: In TPCR4 and the rollover year the reliability incentive is recognised one year in arrears (from RIIO-T1 this moves to 2 years in arrears). Therefore for the purposes of para 2 only the year commencing 1 April 2012 needs to be recognised in the RIIO-T1 licence.	We believe para 2 should be amended accordingly (delete reference to regulatory year commencing 1 April 2011).
	ETC24	Incentive adjustments relating to the licensee's Stakeholder Satisfaction Output	Page 46, para 24.5	SERtmax is defined as half of revenue	Replace 0.5 with 0.005
			Page 47, para. 24.13	There is no reference to the coverage or structure of the SSSt term previously put forward to Ofgem by the working group. We assume that the working group proposals will be included in time for the October consultation.	
			Page 48, para. 24.14	Definition of "stakeholder" – please review the reference to "customers" in relation to the role of Transmission Owners. There may need to be a difference in definition as between TOs and NGET to recognize this point.	
	ETC25	Incentive in Respect of SF6 Gas Emissions	Page 49, para 3	No financing costs are included in the formula for SFIt	Include financing costs from t-2 to t in definition of SFIt to ensure present value neutral adjustment
	ETC25	Incentive in Respect of SF6 Gas Emissions	Page 49, para 3	In the formula for SFIt the term NTPCt is in 2009/10 prices and should be adjusted for RPI	Add inflation term RPIFt as provided in Part C of ETC20

	ETC26	Annual Iteration Process	Throughout	Please review references to SOMOD and TOMOD (some without time suffix). For TOs MODt is the relevant term.	
		Annual Iteration Process	Para 26.6 l	(Demand related infrastructure volume driver). This should specify NGET only	
		Annual Iteration Process	Page 190, paras. 26.9,26.10	The value to be directed by the Authority by 30 November (para. 26.10) is not constrained to be the value for MODt/SOMODt/TOMODt resulting in step 2 of the iteration process (para. 26.9)	Para. 26.10 should cross-refer to the output of step 2 in para. 26.9
	ETC11	The network innovation allowance	Page 67 para 11.9	In respect of the BRt term paragraph 3.9 of the fast track final proposals states that NIA will be 0.5% of Allowed revenue not Base revenue	This term should be changed to Tot for SPTL's licence
	ETC39	Specification of baseline and strategic wider works outputs and assessment of allowed expenditure	Page 101 paras 7 and 9	Should the values in tables 1 and 2 be by year as opposed to totals so that adjustments can be made?	
	ETC39	SWW Outputs	Para 20	We are not clear why there is a reference to 'totex adjusting event' rather than COAE.	Change "totex adjusting event" to "Cost and Output Adjusting Event".
			Para 40	This paragraph relating to revisions to WWE in the table is difficult to follow. The reference to 'checking; whether WWE is still the same as the values in the table is obscure. We assume it is meant to simply provide for the values in the table to be revised (following consultation with licensee - should be added) following a submission provided for under part G. .	Please review drafting to make clear.
	ETC47	Totex Incentive Mechanism	Page 165 Para 47.4	The "mechanisms" referred to are not set out in this condition. Also, there is no reference to the reporting RIGs for the 'actuals' referred to. It is important that the supporting documents (Handbook and RIGs) fully set out the procedures required.	

			Page 167, 47.10	We have not yet seen supporting documentation to provide for potential revisions to submitted values referred to in this paragraph. There needs to be an appropriate cross reference to this documentation in this paragraph. The time subscripts in subparagraph (a) are incorrect (should refer to year t-2). We understand that this has been corrected subsequent to the issue of the consultation draft,	
ETC53	Network Access Policy		Page 85, para. 7(a)	Text "... ,have regard to the desirability of minimising system costs" could be seen as emphasising short term considerations at expense of longer term.	Replace by "to secure the best long term outcome (including costs) for customers"
ETC 55	Baseline generation connection outputs and generation connections volume drive [SPTL version]		Page 116, para 7	The annual operational cost allowance of 1% only appears to be allowed in the first year.	Allow annual operating costs of 1% of cumulative gross value of connection works (see paragraph 6.38 of Final proposals for SPTL and SHETL).
	Connections Volume Driver		Para 7	Formula for SoleUCAk contains errors	Reposition brackets and replace + with * between RPI and Opex factors
	Connections Volume Driver		Para 8	Shared costs should also be suitably indexed for real price effects and operating costs, as for sole use costs.	Please add relevant factors
ETC 55	Baseline generation connection outputs and generation connections volume drive [SPTL version]		Page 116, para 8	The annual operational cost allowance of 1% is not included. .	Allow annual operating costs of 1% of cumulative gross value of connection works (see paragraph 6.38 of Final proposals for SPTL and SHETL).
ETC 57	Governance of ET1 Price Control Financial Instruments		Page 192, paras 5.3 and 5.4	Paragraph 5.4 appears to over-ride paragraph 5.3 <i>[one is about statutory licence mod powers, the other about changes to supporting documents]</i>	
			Page 192, para. 5.5	Please review references to SOMOD and TOMOD, for TOs this should be MODt.	
			Para 5.9	What is the definition of "significant impact"?	

	ETC62	Pre-Construction Outputs for SWW	Para 17	We think that 'efficiently incurred costs' is preferable to 'efficient costs'	Change "efficient costs" to "efficiently incurred costs".
	ETC64	Legacy Adjustments	Para 64.3	Should specify that legacy adjustments fall outside RIIO Totex Incentive Mechanism,	
	ETC64	Legacy Adjustments	Para 64.10	LAR feeds into MOD. Legacy adjustments from prior control should not increase incentive exposure and materiality thresholds in RIIO-T1 (fast pot, at least)	Clarify and justify policy
	ETC64	Legacy Adjustments	Para 64.14	Relevant sections of handbook don't exist.	The relevant part of the financial handbook is required to lay out general policy principles for modelling the impact of legacy adjustments and provide detail of implementation
	ETC64	Legacy price control adjustments – transmission owner	Page 152 para 64.9	The terms LAR and LRAV were discussed at the Licence drafting meeting on 24/8. It was felt this needed to be clarified. This term relates to all years up to and including 2012/13	Suggested revised wording: "Revised LAR and LRAV values will be input to Relevant Year 2013/14 regardless of when the adjustment is determined"
	STANDARD LICENCE CONDITIONS				
	ETC74	REGULATORY INSTRUCTIONS AND GUIDANCE		Very difficult to comment in absence of draft RIGs.	
	ETC76	DATA ASSURANCE REQUIREMENTS	Page 26, para 76.19	The term "Data" is not helpful as some in-scope submissions will be narrative in nature rather than quantitative. We suggest term "Relevant Submissions" instead. We look forward to the draft DAG being available and in particular to an indication of submissions that will be in-scope for the specified risk assessment referred to in this condition.	Replace "Data" by "Relevant Submissions"
			Page 26, para 76.19	Term 'Internal Assurance Function' is confusing, as definition refers to governance and control activities, not to organisational unit. We think alternative term such as Assurance Review Procedures would be more appropriate. Also, this definition appears to go well beyond issues relating to provision of data to the Authority. It should be more focussed on the purpose of the condition.	Replace by "Assurance Review Procedures means the licensee's arrangements for assuring that its risk management, governance and internal control processes in relation to provision of Relevant Submissions to the Authority are operating effectively."

Supporting Document 4: Response template for RIIO-T1 & GD1- First licence drafting consultation